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Group Vice President of the Corporation

JOHN A. COLEMAN

Senior Partner, Adler, Coleman & Co.

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Assistant Secretary

**AMERICAN
BROADCASTING
COMPANIES, INC.**
ANNUAL REPORT 1966

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Executive Offices

1330 Avenue of the Americas
New York, N. Y. 10019

Independent Accountants

Price Waterhouse & Co.

Transfer Agent

Bankers Trust Company

Registrar

The Bank of New York

YEAR IN BRIEF

	1966	1965
Revenues		
Broadcasting	\$413,684,000	\$361,631,000
Theatres	82,390,000	80,982,000
Merchandise sales and other	43,898,000	33,852,000
Total	<u>\$539,972,000</u>	<u>\$476,465,000</u>
Expenses		
Operating and general expenses	\$485,505,000	\$430,131,000
Depreciation	8,756,000	7,110,000
Interest	3,686,000	2,395,000
State, local and payroll taxes	9,315,000	7,908,000
Federal income tax	14,850,000	13,200,000
Total	<u>\$522,112,000</u>	<u>\$460,744,000</u>
Earnings		
Operations	\$ 17,860,000	\$ 15,721,000
Capital and non-recurring gains (losses), net	206,000	(156,000)
Total	<u>\$ 18,066,000</u>	<u>\$ 15,565,000</u>
Per share:		
Operations	\$3.81	\$3.39
Capital and non-recurring gains (losses), net04	(.04)
Total	<u>\$3.85</u>	<u>\$3.35</u>
Dividends		
Total	\$ 7,496,000	\$ 6,962,000
Per share	\$1.60	\$1.50
Financial Position at Year End		
Working capital	\$ 91,755,000	\$ 93,772,000
Property and equipment, net	\$113,464,000	\$ 74,292,000
Total assets	\$320,315,000	\$262,777,000
Loans and notes due after one year	\$ 87,897,000	\$ 62,030,000
Stockholders' equity:		
Total	\$141,111,000	\$129,672,000
Per share	\$29.98	\$27.70
Number of common shares issued	4,707,270	4,681,896
General		
Stockholders of record	16,746	17,882
Theatres	401	399
ABC-TV Network affiliates (including secondary affiliates) ...	269	263
ABC-Radio Network affiliates	414	432

Earnings per share are based
on the average number of shares outstanding.

The Annual Meeting of Stockholders has been scheduled
to be held at 7 West 68th Street, New York, New York on
June 13, 1967 at 11:00 A.M.

PRESIDENT'S LETTER TO STOCKHOLDERS

Revenues and operating earnings for 1966 were at record levels. Revenues rose to \$539,972,000 from \$476,465,000, an increase of 13%. Operating earnings of \$17,860,000 increased 14% over the \$15,721,000 for the previous year. On a per share basis, these earnings represented \$3.81 a share compared with \$3.39 a share for 1965. All major divisions of the company contributed to these higher levels.

At this writing, the merger of our company with International Telephone and Telegraph Corporation, which was approved by the stockholders of both companies on April 27, 1966, has not as yet been consummated.

The merger was approved by Order of the Federal Communications Commission on December 21, 1966. However, the Antitrust Division of the Department of Justice petitioned the FCC for a Stay and Reconsideration of the Commission's Order of Approval and requested an evidentiary hearing. Both companies have taken the position with the Commission that the petition of the Department of Justice is without merit. The FCC, on February 1, 1967, stayed the consummation of the merger to permit information to be submitted by the Justice Department and rebuttal by the companies before ruling on the Justice Department's Petition for Reconsideration. Subsequently, on March 16th, a limited expedited hearing was ordered by the Commission for the purpose of allowing supplemental information to be added to the record. The hearing is to take place com-

mening March 27th and the company is hopeful that a prompt decision will be made thereafter by the Commission.

As we reported to our stockholders over a year ago, we felt that the merger would be in the public interest and beneficial to our company. It would result in greater competition, thus benefiting the public, in that ITT's larger financial resources would strengthen ABC's capacity to compete effectively with the two larger networks. The merger also promises enhancement of ABC's programming services. Further, increased financial stability will enable us to undertake long-range plans to complete our color facilities and studios and to continue to strengthen our news and public affairs department without fear of short-term hardship.

Our increased financial requirements were particularly evident this past year. In order to provide the color facilities being provided by the other two major broadcasting companies and to compete with them for theatrical film programming, we were required to accelerate our plans and to make substantial expenditures for broadcast facilities and equipment necessary for color television and the licensing from motion picture producers of feature films for future television programming use.

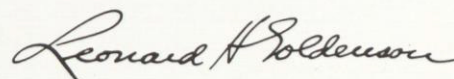
To provide for these and other corporate needs, we drew down funds under our 1965 Loan Agreement with Metropolitan Life Insurance Company and our 1966 Loan Agreement with four banks. Because of these continuing

requirements and the delay in consummation of the merger, a critical cash shortage in our immediate needs developed. With the financing limitations imposed by existing agreements, additional borrowings were arranged for from ITT in February, 1967. These loans are more fully described in the financial review section of this report.

During the year, our management structure was strengthened with the creation of the new office of group vice president and the election of four group vice presidents responsible for operations in the following area of activities: the television network, other television operations, radio operations, and non-broadcasting operations.

While the merger has not as yet been resolved, you may be assured that our entire organization continues to be dedicated in its work and in its desire to enhance the growth of our company. We are appreciative of the contribution of our employees and our Board of Directors as we are of the long-standing support and confidence of our stockholders.

Sincerely,



President

March 16, 1967

FINANCIAL REVIEW

REVENUES were at a record level of \$539,972,000 compared with \$476,465,000 in 1965, an increase of 13%. Revenues for the broadcasting division rose to \$413,684,000 from \$361,631,000, reflecting increases in the television and radio networks and owned stations. Theatre revenues increased to \$82,390,000 from \$80,982,000. Other revenues rose to \$43,898,000 from \$33,852,000, reflecting principally the increase in phonograph record activities.

EARNINGS FROM OPERATIONS increased to a record level of \$17,860,000 compared with \$15,721,000 in 1965, an increase of 14%. On a per share basis, this represented \$3.81 a share compared with \$3.39 a share last year. All major divisions of the Company contributed to the improvement in earnings.

CASH DIVIDENDS paid were \$7,496,000 or \$1.60 per share compared to \$6,962,000 or \$1.50 per share in 1965.

STOCKHOLDERS' EQUITY increased to \$141,111,000 or \$29.98 a share at the end of the year from \$129,672,000 or \$27.70 a share at the close of 1965.

LOANS AND NOTES PAYABLE increased during the year by cash borrowings totaling \$34,000,000 representing the final takedown of \$9,000,000 under the 1965 loan agreement with Metropolitan Life Insurance Company and \$25,000,000 obtained under a new loan agreement with banks. The loans and notes payable of \$95,187,000 outstanding at the end of the year, of which \$7,290,000 are repayable during 1967, comprised the 4.55% notes to Metropolitan Life Insurance Company amounting to \$66,250,000, the notes payable to banks, bearing interest at $\frac{1}{4}$ of 1% per annum above the prevailing prime commercial loan rate, amounting to \$25,000,000 and various mortgage notes amounting to \$3,937,000.

Subsequent to the year end, the Company borrowed an additional \$2,500,000 under the loan agreement with the banks and concluded a loan agreement with International Telephone and Telegraph Corporation to borrow a total of \$25,000,000 in five consecutive monthly instalments of \$5,000,000 commencing February, 1967, with notes bearing interest at $\frac{1}{4}$ of 1% per annum above the prime commercial loan rate prevailing on the date of issuance. ITT is not obligated to advance further instalments if the Agreement of Merger is terminated before the total loan is made.

Notes issued under the 1965 loan agreement are repayable by semi-annual instalments with a final payment of \$10,750,000 upon maturity, July 1, 1985, and notes issued under the loan agreements with banks are payable in approximately equal quarterly instalments from June 1, 1967 to March 1, 1972. The loan agreement with International Telephone and Telegraph Corporation provides that upon the merger the notes issued thereunder will be converted to advances, and if the Agreement of Merger is terminated, the notes shall mature one year thereafter.

WORKING CAPITAL decreased \$2,017,000 during the year to \$91,755,000 at year end, representing a ratio of current assets to current liabilities of 2.2 to 1. The following table illustrates the change in composition

of working capital during the year and reflects the substantial decrease in cash funds, whereas program rights, other current assets and the current liabilities increased.

WORKING CAPITAL			
	<u>1966</u>	<u>1965</u>	<u>Increase (Decrease)</u>
Cash funds	\$ 19,833,000	\$ 47,259,000	\$ (27,426,000)
Program rights	82,775,000	50,750,000	32,025,000
Other current assets	67,195,000	55,790,000	11,405,000
	<u>\$169,803,000</u>	<u>\$153,799,000</u>	<u>\$ 16,004,000</u>
Current liabilities	<u>78,048,000</u>	<u>60,027,000</u>	<u>18,021,000</u>
Working Capital	<u>\$ 91,755,000</u>	<u>\$ 93,772,000</u>	<u>\$ (2,017,000)</u>

CASH FUNDS, which amounted to \$19,833,000 at the end of 1966, were \$27,426,000 lower than at the end of 1965. This decrease in cash funds, when combined with the additional \$34,000,000 borrowed during the year, represents a net reduction of \$61,426,000 after utilizing the cash flow generated by the Company's business activities during the year. The large cash expenditures were made for the acquisition of rights to a substantial number of feature motion pictures for current and future television network use, which is reflected by the increase of \$32,025,000 in the inventory of program rights, and for property and equipment amounting to \$49,269,000. Property and equipment expenditures comprise \$17,899,000

applicable to the broadcasting division primarily for continued modernization and conversion of studios and equipment to color as well as additional facilities; \$7,660,000 related to theatres, principally for new theatres and the improvement or modernization of existing theatres; and \$23,710,000 applicable to all other operations including the purchase of the new administrative headquarters building in New York. Depreciation for the year amounted to \$8,756,000 of which \$5,322,000 related to the broadcasting division, \$2,518,000 to theatres and \$916,000 to all other operations.

The sources and uses of cash funds for the year are set forth in the Cash Funds Statement below:

CASH FUNDS STATEMENT		
<u>For the Year 1966</u>		
Cash funds used for:		
Property and equipment	\$49,269,000	
Increase in program rights	32,025,000	
Dividends paid	7,496,000	
Repayments under Loan Agreement	2,500,000	
Increase in other assets, primarily receivables, less increase in liabilities of \$14,599,000	<u>166,000</u>	<u>\$91,456,000</u>
Cash funds provided by (excluding borrowings shown below):		
Earnings from operations	\$17,860,000	
Depreciation	8,756,000	
Capital and non-recurring transactions, net.	2,544,000	
Common stock sold under options	<u>870,000</u>	<u>30,030,000</u>
Balance of cash used in excess of cash provided, derived from:		
Additional borrowings under long-term loan agreements	<u>\$34,000,000</u>	
Net reduction in cash funds	<u>27,426,000</u>	<u>\$61,426,000</u>

ABC NEWS

ABC News provides world-wide news to both the ABC Television and Radio Networks through its more than 850 correspondents and supporting personnel in this country and in news bureaus abroad. It has been steadily expanding its operation in terms of facilities, including color transmission, programming and personnel in order to best fulfill its responsibilities as a major news service. Its programs have been cited many times for excellence and its commentators for comprehensive and creative reporting of the important issues confronting the American public and of the major events taking place around the globe.

Starting in January, 1967, ABC News expanded its network evening news program, "Peter Jennings with the News," to thirty minutes. This program, telecast in color for the first time, provides greater depth in its news coverage than was possible in its fifteen minute format, makes more effective use of such respected commentators as Howard K. Smith, Edward P. Morgan, William H. Lawrence and John Scali, and provides more frequent reports from its other correspondents at home and abroad.

Highlighting ABC News' coverage of important events this past year were its daily reports from its 25-man Saigon bureau on the conflict in Vietnam. Recognizing the public's concern and interest, these daily reports have been supplemented by "ABC Scope," a half-hour weekly series devoted to all aspects of the Vietnamese crisis.

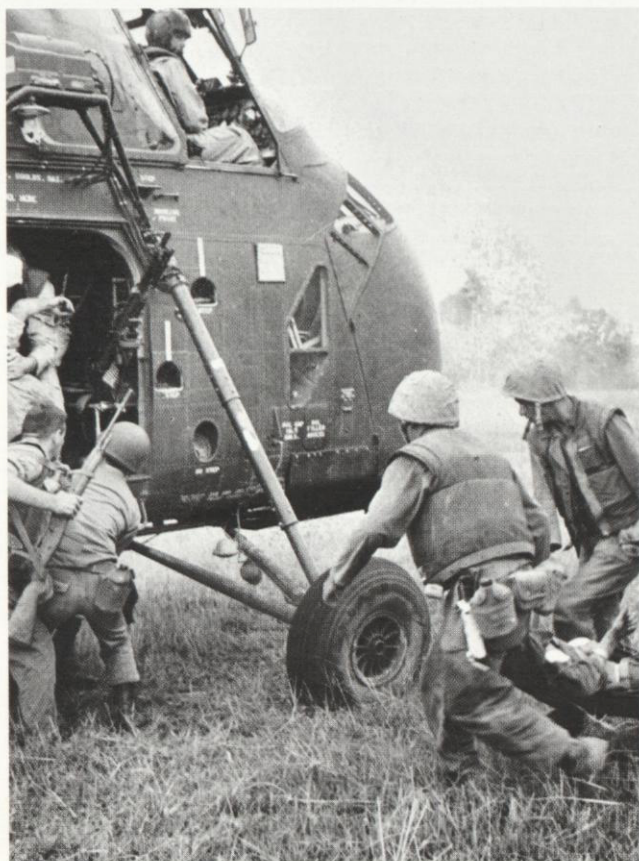
In reporting the November Congressional and state elections and the space shots during 1966, ABC News' coverage and analysis received the highest acclaim from the industry's critics.

ABC News' increased schedule of documentaries, telecast on the network, totaled thirty-three hours. They were of great diversity and included: "Beethoven: Ordeal and Triumph" in "The Saga of Western Man" series; "To Save a Soldier," concerned with casualties in Vietnam; "The Long Childhood of Timmy," a touching study of mental retardation; and "The Hall of Kings," a tour through Westminster Abbey, one of Europe's most historic landmarks. Both ABC News' award-winning children's program, "Discovery," and its weekly series on religion, "Directions," offered new departures in program concepts.

One of the most extensive and ambitious programs, planned for network telecasting in September, 1967, will be a four hour prime-time presentation on Africa. Utilizing the resources and personnel of ABC News and the ABC-TV Network, together with leading experts and authorities on that continent, this unique project is expected to present new understanding of Africa, its socio-economic problems, its people, their lives, their activities and their heritage.



More than 2,000 editorial and production personnel operated from the ABC News Center, built specifically for ABC-TV's coverage of the 1966 elections.



"To Save a Soldier," the highly acclaimed and deeply moving story of the battle to save lives in Vietnam—a notable documentary from ABC News.



Peter Jennings on the new half hour news program in color, telecast Monday through Friday evening on the ABC Television Network.

ABC TELEVISION NETWORK

The ABC Television Network is, today, one of three major national networks, although it has a lesser number of primary affiliated stations than the other two networks. At the 1966 year end, the network had 138 primary affiliated stations providing direct coverage to approximately 93% of U.S. television homes. Despite its smaller lineup of stations, the network has continued to attract substantial viewing to and sponsor acceptance of its nighttime programming and has made further progress in sponsor acceptance of its daytime programming. In order to give added impetus to its daytime schedule, the network will convert a number of daytime shows to color in April and others in the Fall of the year.

The spectrum of the network's programming covers entertainment, sports, news and public affairs. In entertainment, the network's evening schedule includes such well accepted shows as "The FBI," "Bewitched," "Peyton Place," "Hollywood Palace" and "Lawrence Welk." Popular programs, new in this current season, include "The Rat Patrol," "Felony Squad" and "That Girl" starring Marlo Thomas. Among the network's program innovations which have received much commendation and attention is "ABC Stage '67," a weekly series of varied program concepts including drama that has attracted top creative talent, new to the television medium.

In 1966, color became a demonstrably influential factor in viewing. By the year end, it was estimated that approximately 17% of U.S. television homes were equipped with color sets. Anticipating increasing numbers of color sets and in order to be more competitive with the other major networks, ABC-TV presented its entire evening schedule in color, virtually doubling its color output over the previous year. This entailed increased expenditures not only for programming but for color studios and equipment. Further expansion of such facilities will be required in the future.

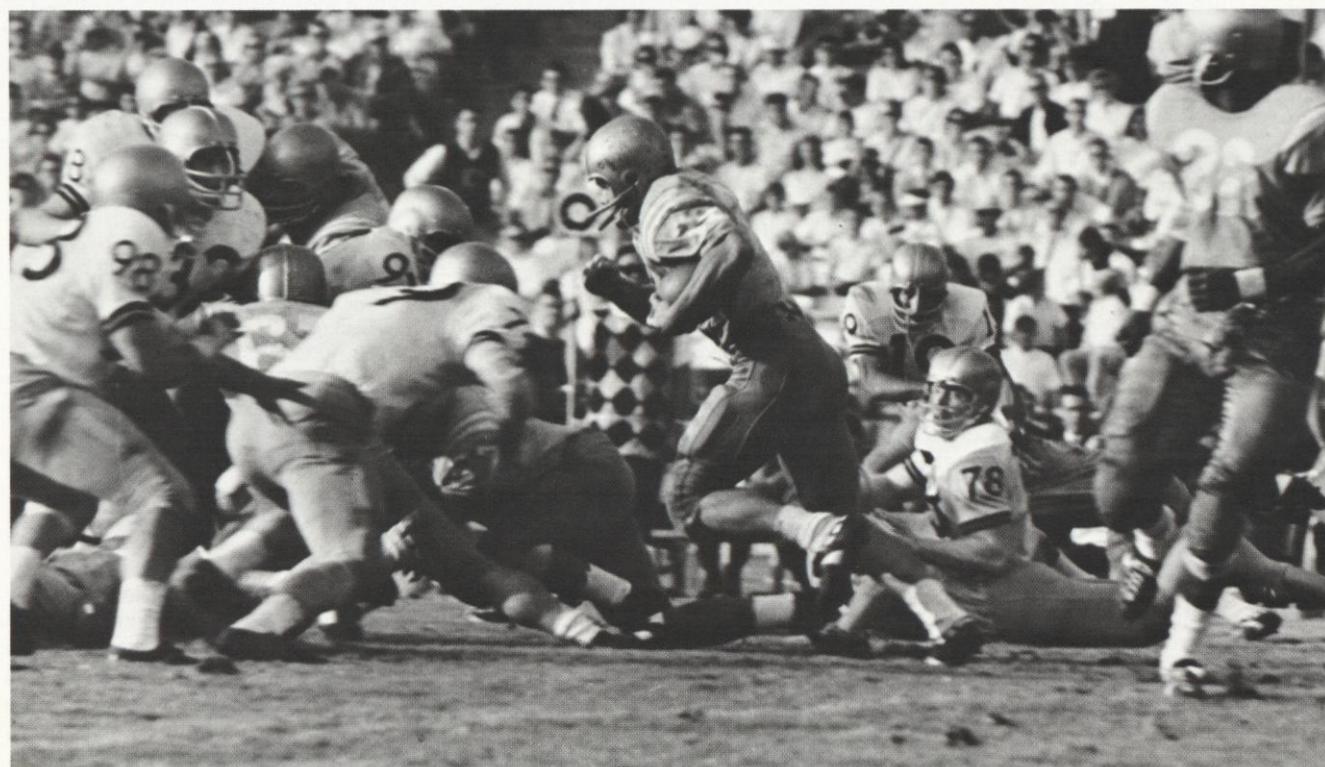
A highlight of the current season was the telecast of the award-winning motion picture "Bridge on the River Kwai." This presentation attracted the largest audience for any television program with the exception of the "Academy Awards" telecast on ABC-TV last April. Recognizing the general high acceptance by viewers and advertisers of motion picture feature films, the network acquired a substantial number of quality films to provide for its needs for the current and forthcoming seasons as well. These include such major motion pictures as "The King and I," "Cleopatra," "The Longest Day," "Those Magnificent Men in Their Flying Machines," "The Agony and the Ecstasy," "Zorba the Greek" and "Von Ryan's Express."

The network's schedule of sporting events was a distinguished one. It included "Wide World of Sports," "The American Sportsman," major golf tournaments, including the British Open via satellite, and professional basketball and bowling. A highlight of its coverage of the NCAA football games this past Fall was the Michigan State-Notre Dame game, drawing the largest regular season college football audience to this telecast of the nation's two leading college football teams. ABC-TV also will be providing, for the first time in color, the exclusive coverage in 1968 of the Winter Olympics from Grenoble, France and the Summer Olympics from Mexico City.

Noteworthy among the network's special programs was "Brigadoon," starring Robert Goulet and Sally Ann Howes. In preparation for forthcoming telecasts are original two-hour adaptations of theatre classics; two memorable musicals, "Carousel" and "Kismet"; and twelve programs on oceanography under the direction of the world-famous underseas explorer Jacques Yves Cousteau. Also scheduled to begin in April, 1967 is the network's entry in late evening programming featuring Joey Bishop, one of this country's top comedy talents.



Truman Capote's "A Christmas Memory," one of his most poignant and enduring stories, found new creative dimension on "ABC Stage '67."



Excitement of college sports on the ABC-TV Network with NCAA football, highlighted by the game of the decade, Michigan State vs. Notre Dame.

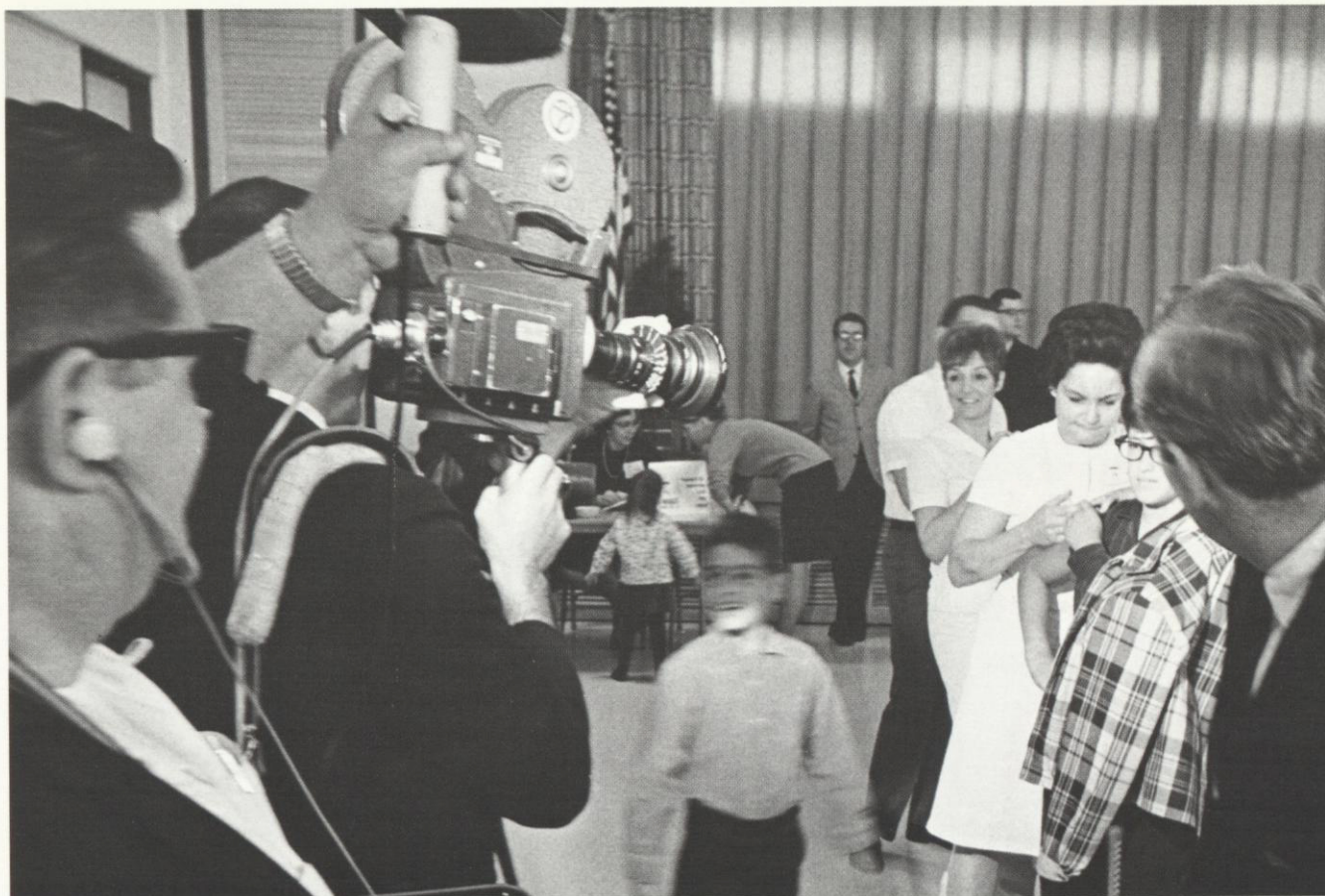
TELEVISION

ABC Owned Television Stations

The ABC Owned Television Stations are located in five of the seven leading markets in the United States—WABC-TV, New York; WXYZ-TV, Detroit; WBKB-TV, Chicago; KABC-TV, Los Angeles and KGO-TV, San Francisco. Currently, all of these stations are equipped to originate local programs in color.

The stations achieved their best level in sales in 1966. They have established important positions in their respective communities, providing the public with entertainment and public affairs programs. These stations actively participated in the affairs of these communities through expanded local news operations, special programs of particular local interest and a policy of editorializing on vital local issues.

Local station programming and community involvement took many forms during this past year. In New York, for example, WABC-TV produced "Who Will Tie My Shoe," a documentary on mental retardation which received five major awards. In an effort to bring the unemployed closer to existing job opportunities, KABC-TV in Los Angeles organized a highly successful three-day "Career Trade Show" which was attended by over 100,000 people. Station WXYZ-TV, in cooperation with radio station WXYZ, initiated a drive to eradicate childhood measles. Through their editorials, the stations alerted the state legislature to the dangers of measles and thereby aided in passing a state law requiring inoculation for all pre-school children. The stations then launched a campaign to encourage inoculations. More than 170,000 children were inoculated on October 23rd, the largest known single mass measles inoculation pro-



Station WXYZ-TV's "End Measles Sunday" campaign in Detroit, one of the most effective community undertakings.

gram. Most encouragingly, medical authorities reported a 90% reduction in the number of cases of measles in the greater Detroit area during this past winter season.

ABC International

ABC International acts as purchasing and sales representative for foreign television stations known as the Worldvision group, consisting of more than sixty stations located in twenty-six countries. Minority interests are held in a number of television stations abroad.

Television world-wide continues to grow each year. Today, there are over one hundred nations with television service. The greater utilization of satellites along with the construction of receiving and transmitting stations in key world centers can be expected to further the development of television as a global medium. ABC International, through its extensive associations with stations throughout the world, can also be expected to benefit.

ABC Films

ABC Films increased its total revenues from television programs distributed to television stations in this country and abroad. Domestic sales included many popular shows that had concluded their network run as well as other properties. In the international area, its programs were sold in over eighty foreign markets.

During the past year, ABC Films extended its distribution in markets throughout the United States of its own production, "Virginia Graham's Girl Talk," the longest running syndicated program telecast on a five-day-per-week basis.



First live telecast to Japan via Lani Bird satellite, produced by ABC International in cooperation with ABC News.

RADIO

ABC Radio Network

The ABC Radio Network, with its 414 affiliated stations, is one of four major radio networks in the country. Greater interest has been shown by the public and advertisers in the radio medium in recent years. The ABC Radio Network has benefited from this development with its sales again exceeding the previous year's level.

A highlight of its entertainment programming is Don McNeill's "Breakfast Club" which continued to enjoy great popularity as it completed its 33rd consecutive year of broadcasting. The network's coverage of major sporting events, featuring such leading sportscasters as Tom Harmon, Chris Schenkel, Howard Cosell and Keith Jackson, included the complete Notre Dame college football schedule.

The network has been particularly effective in its programming of radio network news designed specifically for a growing radio audience both in and away from the home. Comprehensive news coverage was supplemented by a number of documentaries which included, for example, "The Eagle and the Bear"—a thirteen week series tracing United States and Soviet relations since World War II.

ABC Owned Radio Stations

The ABC Owned Radio Stations, providing both AM and FM service, are located in six of the eight leading markets in the country—WABC, New York; WXYZ, Detroit; WLS, Chicago; KABC, Los Angeles; KGO, San Francisco and KQV, Pittsburgh.

These stations had their best sales year in 1966 and



Newsman Don Gardiner and staff review late news prior to national ABC Radio Network broadcast.

have maintained strong competitive positions in their markets. They have received many awards and commendations for the calibre of their local programming and for their constructive involvement in community affairs.

The policy of the stations of broadcasting frequent and vigorous editorial viewpoints on issues facing their communities has created interest among civic leaders and listeners alike. Station KGO in San Francisco was instrumental in creating a publicly supported ambulance service for Marin County. The station's editorials also caused legislators to initiate a study of the state's laws regulating ambulance services throughout California. Some community and social problems of large metropolitan areas are often of such magnitude as to demand special efforts. Station WLS, recognizing the problem of high school dropouts in Chicago and the need to develop employment opportunities for them, enlisted broad community support for a major campaign. This program, "Target Dropout," strongly assisted by the Chicago Daily News, was considered one of the most outstanding community campaigns ever undertaken in that area.

FM station facilities and programming hours were expanded in Los Angeles, San Francisco, Detroit and Pittsburgh in 1966. All six Owned FM Stations now schedule programming which is distinct from their AM counterpart for at least half of the broadcast schedule to comply with new FCC regulations. The type of programming offered by the FM stations varies from "all news" twenty-four hours a day on KABC-FM in Los Angeles to the stereo sound of music and personalities on WXYZ-FM in Detroit and KQV-FM in Pittsburgh.



An important service provided by the ABC Owned Radio Stations is helicopter traffic reports such as those by KGO for the San Francisco area.

NON-BROADCASTING

ABC Theatres

Our company, through theatre subsidiaries, had interests in 401 theatres in thirty-four states at the 1966 year end. ABC has pursued a policy of strengthening and upgrading its theatre portfolio by acquiring selected new theatres, particularly in growing suburban areas, by modernizing existing ones and by disposing of marginal properties. During the past year, fifteen marginal properties were disposed of and seventeen new theatres were opened. One new theatre was acquired in January, 1967. Twenty-nine theatres are presently in construction. Almost all of these will be located in shopping centers and will be leased to and operated by subsidiaries. Most of these theatres are expected to open before the end of the year. The improvement in theatre business in 1966 reflected the upgrading of the company's theatre portfolio as well as the quality of the motion pictures released to theatres during the year.

ABC Records

ABC Records distributes its recordings throughout the United States and many foreign countries. It enjoyed its most successful year in 1966. Many of its records achieved great popularity and sales including those by The Mamas & The Papas, Ray Charles, Tommy Roe, The Brass Ring and The Ray Charles Singers, as well as recordings of the original motion picture soundtracks from "The Bible" and "The Sand Pebbles" and Art Linkletter's narrative album of "The Bible" for children, the latter three on 20th Century-Fox Records, distributed by ABC Records. The record company's major labels are ABC and Dunhill (popular), Impulse! (jazz), Command



The Sunny Isle Theatre in North Miami Beach, Florida was one of the seventeen new ABC theatres that opened in 1966.

(popular and classical) and Westminster (classical). ABC Records also has a record pressing plant and is engaged in music publishing.

Other Activities

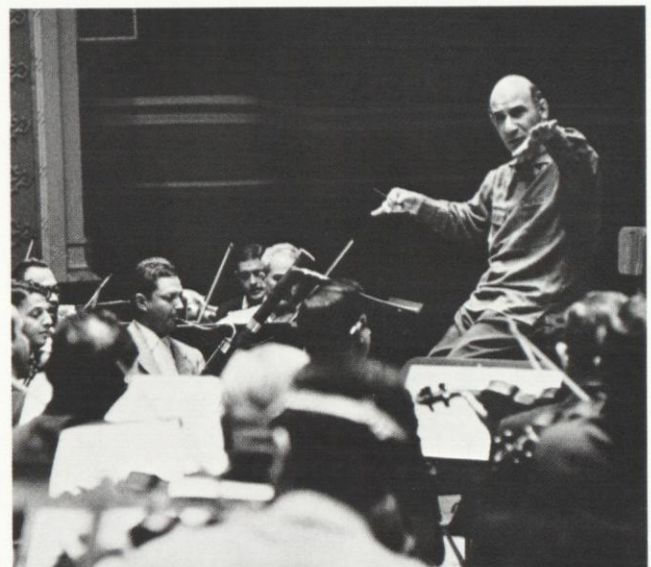
The company's other activities include three leading and long-established farm papers serving the midwest which have a combined circulation of 800,000: *Prairie Farmer*, *Wallaces Farmer* and *Wisconsin Agriculturist*.

Two scenic attraction centers are owned and operated in Florida: *Weeki Wachee Spring* near St. Petersburg and *Silver Springs* near Ocala. Both centers are well-known for their natural springs and such continuing popular tourist attractions as underwater shows and glass-bottom boat rides.

Presently planned to open in mid-1968 is ABC Marine-world, to be located in Redwood City, near San Francisco, California; an unusual entertainment project which will include an oceanarium and a water-ski show arena. It will also include an oceanographic institute for research of the world beneath the sea.

ABC also has minority stock interests in two small electronic companies: *Microwave Associates, Inc.* (12% stock interest) and *Technical Operations, Inc.* (19% stock interest). *Microwave Associates* is a manufacturer of components and systems for the defense and communications industries and *Technical Operations* is a manufacturing, research and development company engaged in many areas of advanced technology.

ABC, through a partly-owned company, has a 40% interest in the American and European productions of the internationally popular ice show, *Holiday on Ice*.



Dr. William Steinberg conducts the Pittsburgh Symphony Orchestra at a recording session for ABC Records' Command label.

CONSOLIDATED FINANCIAL POSITION

Assets

	December 31, 1966	January 1, 1966
Current Assets:		
Cash	\$ 16,443,000	\$ 26,530,000
United States Government securities, at cost (approximate market), and certificates of deposit	3,390,000	20,729,000
Receivables, less reserves:		
Trade	58,446,000	49,064,000
Other	3,041,000	2,670,000
Program rights, production costs and advances, less amortization (see Note B) .	82,775,000	50,750,000
Inventory of merchandise and supplies, at cost or less	4,139,000	2,597,000
Prepaid expenses	1,569,000	1,459,000
Total current assets	<u>169,803,000</u>	<u>153,799,000</u>
Investments And Other Assets, at cost, less reserves:		
Associated companies	11,567,000	12,815,000
Receivables due after one year	1,225,000	1,132,000
Miscellaneous investments (see Notes C and E)	2,785,000	2,799,000
Deposits to secure contracts	924,000	601,000
Deferred charges	3,263,000	1,512,000
	<u>19,764,000</u>	<u>18,859,000</u>
Property And Equipment, at cost:		
Land	24,483,000	24,465,000
Buildings, equipment and leaseholds	133,323,000	92,952,000
	<u>157,806,000</u>	<u>117,417,000</u>
Less—Accumulated depreciation and amortization	44,342,000	43,125,000
	<u>113,464,000</u>	<u>74,292,000</u>
Intangibles, at cost	<u>17,284,000</u>	<u>15,827,000</u>
	<u>\$320,315,000</u>	<u>\$262,777,000</u>

American Broadcasting Companies, Inc.

Liabilities and Stockholders' Equity

	December 31, 1966	January 1, 1966
Current Liabilities:		
Accounts payable and accrued expenses	\$ 56,211,000	\$ 49,366,000
Federal taxes on income	14,547,000	8,886,000
Loans and notes payable within one year	7,290,000	1,775,000
Total current liabilities	<u>78,048,000</u>	<u>60,027,000</u>
 Long-Term Liabilities:		
Loans payable (see Note D)	84,586,000	58,500,000
Mortgage notes	3,311,000	3,530,000
Other	8,661,000	5,857,000
	<u>96,558,000</u>	<u>67,887,000</u>
 Deferred Income	<u>4,598,000</u>	<u>5,191,000</u>
	<u>179,204,000</u>	<u>133,105,000</u>
 Stockholders' Equity:		
Common stock, \$1 par value (see Note E)	4,707,000	4,682,000
Capital in excess of par value (see Note F)	63,924,000	63,080,000
Retained earnings (see Note G)	72,480,000	61,910,000
	<u>141,111,000</u>	<u>129,672,000</u>
	<u>\$320,315,000</u>	<u>\$262,777,000</u>

CONSOLIDATED EARNINGS

	1966		1965	
Revenues:				
Television and radio time and program sales, less discounts and commissions to advertising agencies		\$413,684,000		\$361,631,000
Theatre admissions, rentals and vending profits		82,390,000		80,982,000
Merchandise and record sales, publishing and other revenues		43,898,000		33,852,000
		<u>539,972,000</u>		<u>476,465,000</u>
Expenses:				
Operating expenses, cost of merchandise sold and selling and administrative expenses		485,505,000		430,131,000
Depreciation and amortization of buildings, equipment and leaseholds		8,756,000		7,110,000
Interest expense		3,686,000		2,395,000
State, local and payroll taxes		9,315,000		7,908,000
Federal income tax		14,850,000		13,200,000
		<u>522,112,000</u>		<u>460,744,000</u>
	<u>Per Share</u>			
	<u>1966</u>	<u>1965</u>		
Earnings From Operations	\$3.81	\$3.39	17,860,000	15,721,000
Capital And Non-Recurring Gains (Losses), net, after applicable Federal income tax04	(.04)	206,000	(156,000)
Earnings For The Year	\$3.85	\$3.35	18,066,000	15,565,000
Retained Earnings At Beginning Of Year			61,910,000	53,307,000
			79,976,000	68,872,000
Less Cash Dividends	\$1.60	\$1.50	7,496,000	6,962,000
Retained Earnings At End Of Year			\$ 72,480,000	\$ 61,910,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A—CONSOLIDATION POLICY: The consolidated financial statements include the accounts of the Company and all domestic subsidiaries owned 75% or more.

NOTE B—PROGRAM RIGHTS, PRODUCTION COSTS AND ADVANCES: Program rights, some of which are not available for telecast until 1968 and later years, production costs and advances represent principally the amounts paid less the amounts charged to operations on the basis of use for network programs, by systematic amortization over the rental periods for local station programs, and proportionately on the basis of earned revenues to estimated ultimate revenues for costs of programs distributed to others.

NOTE C—MISCELLANEOUS INVESTMENTS: Miscellaneous investments at December 31, 1966 include \$1,069,000, the carrying value of unliquidated investments in certain theatres sold since the inception of the Company. The sales prices aggregating \$8,042,000, of which \$5,739,000 remained uncollected, are payable in instalments, mainly in variable contingent amounts, to 1981. The difference between the uncollected portion and the carrying value represents a contingent profit which will be reflected in earnings proportionately over future years as additional instalments of the sales prices are collected.

NOTE D—LOANS PAYABLE: Notes outstanding under a 1965 loan agreement in the amount of \$66,250,000 bear interest at 4.55% per annum and are payable semi-annually, \$1,250,000 to January 1, 1971, \$1,625,000 to January 1, 1985 and \$10,750,000 on July 1, 1985.

Under a loan agreement with four banks, the Company borrowed \$25,000,000 in 1966 and under a supplemental agreement \$2,500,000 in January, 1967. Interest on the balance outstanding is payable at the prime commercial loan rate to March 1, 1967 and thereafter at the prime rate plus $\frac{1}{4}$ of 1% per annum. The notes are payable in approximately equal quarterly instalments from June 1, 1967 to March 1, 1972.

Subsequent to the year end, International Telephone and Telegraph Corporation agreed to lend the Company \$25,000,000 in five consecutive monthly instalments of \$5,000,000 commencing

February, 1967, with interest at $\frac{1}{4}$ of 1% per annum above the prime commercial loan rate. The loan agreement provides that upon the merger the notes issued thereunder will be converted to advances; if the Agreement of Merger is terminated, the notes shall mature one year thereafter and the obligation to lend any balance of the loan will terminate.

NOTE E—COMMON STOCK: At December 31, 1966, there were 10,000,000 shares of common stock authorized. Of 4,707,270 shares issued, 15,161 shares, at a cost of \$938,769 are included in miscellaneous investments and held in treasury for the purposes of the Key Employees Incentive Compensation Plan.

Under stock option plans, 306,503 shares of common stock are reserved for issuance to employees. At December 31, 1966, options for 212,503 shares at prices ranging from \$28.647 to \$85.50 per share were outstanding. Options for 52,718 shares were exercisable at December 31, 1966 and options become exercisable to the extent of 57,189 shares in 1967, 50,696 shares in 1968, 46,275 shares in 1969 and 5,625 shares in 1970.

During 1966, options for 22,500 shares were granted at prices ranging from \$73.00 to \$85.50 per share and options for 25,374 shares were exercised at prices ranging from \$23.041 to \$60.00 per share. Options for an additional 94,000 shares may be granted.

NOTE F—CAPITAL IN EXCESS OF PAR VALUE: During the year, capital in excess of par value increased by \$844,000 representing the excess of proceeds over par value of common shares issued upon exercise of stock options.

NOTE G—RETAINED EARNINGS: The loan agreements provide certain restrictions on the Company in declaring or paying dividends (other than in shares of capital stock of the Company) or in making any purchase or redemption of capital stock of the Company. Of the consolidated retained earnings at December 31, 1966, approximately \$34,000,000 was not so restricted.

NOTE H—RETIREMENT PLANS: During the year, \$1,300,000 was charged to operations in connection with contributory retirement plans of the Company and certain consolidated

subsidiaries. The expense includes amortization of the past service cost over a period of thirty years from inception of the plans. At December 31, 1966, the unfunded past service cost was estimated at \$11,000,000.

The Company also charges to operations the payments required to be made to various union retirement funds in accordance with the applicable collective bargaining agreements.

NOTE I—LONG-TERM COMMITMENTS: Minimum annual rentals, under 326 leases for real property in effect at December 31, 1966 amounted to \$6,286,000, which is summarized according to lease expiration periods: 1967-1969, \$1,261,000; 1970-1974, \$1,990,000; 1975-1979, \$1,198,000; 1980-1984, \$264,000 and subsequent to 1984, \$1,573,000. Total rent, including rentals based on a percentage of receipts, charged to operations in 1966 amounted to \$7,117,000.

The Company has entered into contracts covering rentals of feature films for future telecast under which it is obligated to

make payments totaling approximately \$60,000,000 during the next five years.

NOTE J—CONTINGENT LIABILITIES: There are contingent liabilities under pending litigation, including anti-trust suits to which some of the companies in the motion picture industry are also defendants.

The Company is a guarantor on a bank loan to an associated company with an outstanding balance at the year end of \$2,650,000. The other stockholder is responsible to the Company for one-half of the guarantee.

NOTE K—MERGER: In April, 1966, the stockholders of American Broadcasting Companies, Inc. and International Telephone and Telegraph Corporation approved a contract covering the merger of the two companies. The consummation of the merger is subject to the final approval of the Federal Communications Commission.

OPINION OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of American Broadcasting Companies, Inc.

In our opinion, the accompanying statement of consolidated financial position and the related statement of consolidated earnings present fairly the financial position of American Broadcasting Companies, Inc. and its subsidiaries at December 31, 1966 and the results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

PRICE WATERHOUSE & CO.

New York, N.Y.
February 23, 1967

FIVE YEAR FINANCIAL SUMMARY *(Dollars in Thousands)*

Earnings And Dividends	1966	1965	1964	1963	1962
Revenues					
Broadcasting	\$413,684	\$361,631	\$310,135	\$280,572	\$274,523
Theatres	82,390	80,982	78,891	76,209	75,956
Merchandise sales and other	43,898	33,852	31,889	29,948	29,262
Total	\$539,972	\$476,465	\$420,915	\$386,729	\$379,741
Earnings from operations	\$ 17,860	\$ 15,721	\$ 11,019	\$ 7,385	\$ 10,757
Capital and non-recurring gains (losses), net.	\$ 206	\$ (156)	\$ 177	\$ 542	\$ 282
Per Share Common*					
Earnings from operations	\$3.81	\$3.39	\$2.40	\$1.62	\$2.36
Capital and non-recurring gains (losses), net.	\$.04	\$ (.04)	\$.04	\$.12	\$.06
Dividends					
Cash—Total	\$ 7,496	\$ 6,962	\$ 5,512	\$ 4,463	\$ 4,368
Per share outstanding	\$1.60	\$1.50	\$1.20	\$1.00	\$1.00
Per share adjusted*	\$1.60	\$1.50	\$1.20	\$.98	\$.96
Stock				2%	2%
Position At Year End					
Working capital	\$ 91,755	\$ 93,772	\$ 72,103	\$ 69,142	\$ 69,126
Property and equipment, net	\$113,464	\$ 74,292	\$ 70,177	\$ 69,575	\$ 68,113
Total assets	\$320,315	\$262,777	\$226,640	\$221,421	\$211,156
Loans and notes due after one year	\$ 87,897	\$ 62,030	\$ 46,559	\$ 49,304	\$ 52,770
Common stock equity	\$141,111	\$129,672	\$119,493	\$112,266	\$108,532
Number of common shares issued	4,707,270	4,681,896	4,623,548	4,557,444	4,456,427

*Adjusted for stock dividends paid in 1963 and 1962. Earnings per share are based on the average number of shares outstanding in each year.

**AMERICAN BROADCASTING-
PARAMOUNT
THEATRES, INC.**

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EXECUTIVE OFFICES / 7 West 66th Street, New York, N. Y. 10023

INDEPENDENT ACCOUNTANTS / Price Waterhouse & Co.

TRANSFER AGENT / Bankers Trust Company

REGISTRAR / The Bank of New York

